



June 21, 2022

Dear Shareholders,

As the new CEO of Soluna Holdings, Inc., I want to share my reflections on the past year and outline our path ahead. Our mission is to make renewable energy a superpower and eliminate wasted energy. Our recent success at Project Dorothy to bring on key investors and hosting customers is energizing. We now have great momentum and a blueprint for future growth.

## What happened last year?

As I reflect on the past year, I feel compelled to acknowledge the challenges that we faced and to appreciate the strength and adaptability of this organization.

At the beginning of 2022, we planned to energize over 100 MW of new data centers powered by renewable energy. We had a strong team in place and worked to establish our brand in the bitcoin mining and cleantech space. Our entire team worked hard to realize these goals.

However, by June, the business environment hit us with a tsunami of unexpected challenges.. The collapse of certain key players in the crypto ecosystem,3AC and later FTX, had a ripple effect that led to a decline in Bitcoin and a closing of the financing markets for crypto-related companies like ours. The war in Ukraine had a profound impact on our power costs in Kentucky. Then, ERCOT instituted a new interim protocol for Crypto loads called Large Flexible Load (LFL), which significantly slowed progress at our flagship site, Project Dorothy. Our June financing plan was put on hold due to market volatility and reduced appetite for new issuances.

We shifted into wartime mode. We focused on closing project-level financing with Spring Lane Capital and made the difficult decision to lay off staff. We cut expenses significantly and did so surgically to maintain the capability to ramp up Dorothy. By the fall, we had to make the difficult decision to slow down Dorothy construction as the ERCOT process dragged on through the spring of 2023.

We want to express our gratitude to all of our employees and shareholders who weathered these challenging times with us. We know that it was not easy, and we are humbled by your resilience and support. We know we've lost some trust, I hope to regain it by executing over the next twelve months.

## Our Focus in 2023

### **Energizing and Commercializing Dorothy**

In April 2023 we received approval to energize Project Dorothy. We closed a \$7.5M transaction with Spring Lane Capital to provide the company with fresh liquidity and to complete Dorothy 1A.

In May 2023, we signed a \$14M Joint Venture agreement with Navitas Global, a private data center development company. Together, we are building out a 25 MW proprietary mining business at Dorothy 1B, where we will enjoy 51% of the profits.

We are now shifting the site from a construction project to a fully operational, 50 MW data center. We have signed two strategic 2-year hosting partnerships to fill Dorothy 1A. We are ramping Dorothy 1A and 1B with the industry's top of the line mining equipment. We have hired a strong operations team based in Texas to deliver best-in-class service to our new customers.

This completes our business plan for the first 50 MW of the 100 MW Project Dorothy. We plan to start to develop the remaining 50 MW later this year (see below).

The earnings power that the remaining 50 MW at Dorothy could generate is between \$7 to \$14 million in project-level EBITDA. Assuming 100% hosting and an incremental capital expenditure of \$20 million, results in an under a two year payback. Soluna has demonstrated its ability to attract project capital for Dorothy from Spring Lane and Navitas Global before anything was operational. We expect raising capital for the remaining 50 MW to be significantly easier and also less costly as we deliver financial and operating results on the site. Harvesting the potential of Dorothy 2 should provide Soluna shareholders with capital efficient growth and the scale to continue to grow.





**Project Sophie and Marie**

During the first quarter of 2023 we signed a 25 MW hosting agreement with a leading sustainability-focused bitcoin miner at Project Sophie that we expect will significantly increase its profitability and serve as the core business model for Project Sophie this year. We also decommissioned the Project Marie data center to refocus our capital resources on Dorothy.

**Achieving Cash Flow Positive and Growing Earnings Power**

Our recent success at Project Dorothy, corporate expense reductions and new hosting partnerships at Project Sophie position us to begin generating positive cash flow from operations by the end of 2023. We remain vigilant to reduce corporate and operating costs through 2023.

**Measured Growth**

Soluna's behind-the-meter energy costs are on average less than \$[30]/MWh, among the best in the industry and deliver solid returns on invested capital (ROIC). As noted above for example, in project Dorothy's next 50 MW using 100% hosting, the entire capital expenditure can be returned in under 2 years

We now have over 700 MW (not counting Dorothy Phase 2 - 50 MW) of behind-the-meter projects in our pipeline at various stages. Assuming we built our data centers for \$450K/MW, a \$4.4 million investment to build 10 MW could be returned in two years. That would drive significant growth in the company's earnings power and profitability. You can do the math on developing and monetizing only a fraction of our pipeline.

Our plan in the second half of 2023 will be to leverage our existing project-level partnerships to build new data centers, as follows:

- 1. Dorothy Phase 2** – We will aim to develop up to 50 MW of our flagship project through project-level partnerships. We could leverage existing infrastructure we acquired last year and reduce cost of construction through various design optimizations.
- 2. Pipeline maturity** – We will sign term sheets and advance pipeline projects through the ERCOT LFL process until they are shovel ready.
- 3. Opportunistic growth** – We will explore asset acquisitions of shovel ready projects using project-level partnerships or financing.

## The Soluna Way

We build, own and operate data centers that efficiently convert wasted renewable energy into clean Bitcoin and eventually high performance computing like AI. Our modular data center projects provide access to the industry's lowest cost of power and return healthy double-digit returns on invested capital. Our team is composed of experts in power, energy markets, project finance, computing technology, and data center technicians.

Our sustainable facilities support applications beyond Bitcoin like AI, scientific research, video transcoding, and deep learning.

What's more ...

### **We are the leading curtailment solutions provider**

For over 5 years we have developed expertise in renewable energy and have built a unique solution to address the industry's biggest challenge – wasted energy. Our brand is now synonymous with curtailment solutions.

We now have relationships with the industry's leading renewable energy developers and have a growing pipeline of de-risked projects with access to low-cost power resources.

We have a repeatable way to grow our supply of sustainable, low-cost power from renewable energy generators. Our unique behind-the-meter structure allows us to draw power from the power plant or grid, while also providing ancillary services. This approach allows us to offer the lowest cost of power for Bitcoin mining and high performance computing (HPC).

**We own our data centers**

We build, own, and operate our data centers and related power infrastructure. Our proprietary design is modular, scalable and designed to run compute-intensive, batch-able applications beyond Bitcoin Mining. Our MDCs are powered by MaestroOS™, our proprietary data center control system. MaestroOS reads a multitude of signals, including: local power costs, weather, Bitcoin metrics, and grid signals to optimize the operations of our facilities around the country. This allows us to monetize these facilities over a long period of time with a high return on invested capital.

**We deliver strong return on invested capital**

Our behind-the-meter projects are structured to use capital efficiently, generate strong cash flows and return all invested capital in 2-years or less.

I continue to believe in our mission – **making renewable energy a superpower using computing as a catalyst**. The passing of the IRA represents a sea change in the renewable energy space. More renewable energy projects will be built around the grid. Congestion and wasted energy will become a larger issue.

Bitcoin continues to be the gorilla in the crypto space and its need for resilient security continues to grow. Bitcoin mining's energy use is a feature, not bug and makes for a perfect solution to curtailed energy. AI is on the rise again, it continues to represent a growth and diversification opportunity for the company.

Thank you for your continued support of Soluna and our long term mission.

Sincerely,



**John Belizaire**

CEO

Soluna Holdings, Inc.



**Soluna Computing, Inc.**

325 Washington Ave. Extension  
Albany, NY 12205

contact@solunacomputing.com  
(518) 218-2550

solunacomputing.com